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November 6, 1998

EX PARTE OR LATE FILED

Ms. Magalie Roman Salas
Secretary
Federal Communications Commission
1919 M Street, NW, Room 222
Washington, DC 20554

RE: Ex Parte Notice, CC Docket No. 98-146

Dear Ms. Salas:

On November 4, 1998, Jack Pendleton and I visited with individuals from the Office of Plans and Policy (OPP) and Common Carrier Bureau (CCB). We discussed issues related to rural ILECs providing advanced telecommunications services. A copy of the presentation given at that ex parte meeting was filed on November 4, 1998. Inadvertently left out of that transmittal was the business case analysis that was presented at the meeting.

An original and one copy of this ex parte notice supplement is being filed. Please include a copy of this notice in the public record of these proceedings. I have also enclosed one copy to be stamped and returned in the enclosed self-addressed stamped envelope.

Respectfully submitted,

Jeffrey H. Smith
Attachments - 1

cc:

Mr. Johnson Garrett
Office of Plans and Policy
Federal Communications Commission
1919 M Street, NW
Washington, DC 20554

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**Business Case Evaluation
For Provision of
Advanced Telecommunications Services
Over Twisted pair Copper and xDSL Technology**

The two business cases presented here were prepared by GVNW for a rural Incumbent LEC client that is considering offering services that fit the description of Advanced Telecommunications Services (ATS) in CC Docket 98-146. These are offered here to show what we believe to be the actual economics of deployment of ATS in small-scale sites that will be typical of deployments in rural areas. In this case, the population of the service area is approximately 12,000 with about 5,800 households. All potential customers can be reached using xDSL technology.

The business plans presented here are for a non-regulated affiliate offering the ATS service over loops leased from the ILEC. Two plans were evaluated:

- 1.) Plan 1: All program content is provided from local equipment.
- 2.) Plan 2: Content equipment is located remotely. Content is transported over leased interexchange transport to the local ATS provider from a central location.

The evaluation was conducted over a projected five-year period. Only the Income Statements are provided here for the sake of brevity.

Advanced Services Provided:

All services considered in this evaluation can be provided from equipment that is currently available or in beta test. GVNW has extensive experience in field trial of equipment and services with our clients in this area.

Services Offered:

- Broadcast Channels (CATV like service)
- Video on Demand
- High Speed Internet/Data Network Access
- Two Bandwidths – 256 Kilobit and 1.544 Megabit

Inputs:

Values for the inputs were based on real world numbers wherever possible. In many cases, quotations were obtained from providers of equipment or services required to offer ATS. Revenues were based on actual prices and market penetration experienced by various existing providers of like services. Many GVNW clients are small telephone companies that also offer CATV service or Internet service, or both. Their experience in prices paid for is included. The above input assumptions thus reflect real world conditions as much as these currently exist. Some items, such as the price for high-speed internet/data access had to be assumed, since there is not a significant number of these services deployed to have a large database of price and market penetration. In all cases, inputs were assumed on a conservative basis, so as not to overstate the business case for providing services where there is limited or no current experience.

INPUT ASSUMPTIONS

Revenue:

Service	Amount	Basis for Amount
Broadcast Video – (CATV like) – Basic Service	\$26.99 /customer/month Market penetration 22% of homes passed in year 1 growing to 70% in year 5	Current prices and penetration of CATV provider in nearby urban area
Broadcast Video – (CATV like) – Premium Service	\$8.99 /premium service/month Market penetration 50% premium of basic in year 1 changing to 48% in year 5	Current prices and penetration of CATV provider in nearby urban area
Broadcast Video – (CATV like) – Set Top Box Lease	\$3.95 /customer/month Market penetration 22% of homes passed in year 1 growing to 70% in year 5	Current prices and penetration of CATV provider in nearby urban area
Internet Basic – 256 Kb	\$37.99 /customer/month Market penetration 5% percent of total households in year 1 changing to 19% in year 5	Estimate based on experience of GVNW dial up Internet Service Providers
Internet Premium – 1.5 Mb	\$49.99 /customer/month Market penetration 1% percent of total households in year 1 changing to 5% in year 5	Estimate based on experience of GVNW dial up Internet Service Providers
Video On Demand	\$3.50 per event ordered in Yr. 1 to \$3.00 in Yr. 5 1.5 events leased per basic broadcast customer per month in Yr. 1 to 2.2 events in Yr. 5.	Lease rates between current Video Rental stores and current CATV Pay-Per-View subscription rates - per VOD content provider.
Advertising – Local Market	\$1.00 per basic broadcast customer per month in Yr. 1, growing to \$3.00 in Yr. 5	Local advertising revenue of GVNW client CATV providers
Install Fees	\$149.99 per install	Recover cost of wiring house with Category 5 data wire required for ATS

Capital Investment

Investment	Amount	Basis for Amount
Video on Demand Server, Digital Video Encoders, Digital Switching/Routing Infrastructure, ADSL Modems	\$2,528.00 per customer in Yr. 1, changing to \$3,304.00 in Yr. 5.	Manufacturer's price quotes
Digital Set Top Box	\$682.00 per unit in Yr. 1, changing to \$279.00 in Yr. 5	Manufacturer's price quotes

Expenses:

Expense	Amount	Basis for Amount
People Expenses (Sales, marketing, customer service, engineering, accounting, management,, legal, consulting, insurance)	\$11.15 per customer per month in Yr. 1 changing to \$8.48 in Yr. 5	Current GVNW Client people expenses reduced to reflect increased efficiency and lower ongoing costs after start up.
Internet Addresses and Server Capacity	\$3.00 per Customer per month – all years	GVNW clients that are Internet Service Providers
Lease of Local Loop from Incumbent LEC	\$25.00 per cable pair per month	Various ILEC tariffs for ISDN/DSL conditioned loops.
Software Right to Use/Network Management/System Integration	\$.50 per customer per month – all years	Provider's price quotes
Video Programming	Basic - \$6.00 per basic broadcast customer per month Premium - \$5.00 per premium customer per channel per month Video on Demand - \$2.00 per event shown	Published prices for channels, and experience of GVNW clients that are CATV providers
Facilities Lease to Remote Server	\$31,743.00 per DS-3 per month – 200 miles	Interexchange carrier quotes
Install labor	\$140.00 per install	GVNW client experience

Financial Parameters

Item	Amount	Basis for Amount
Interest Rate	7.00%	Prevailing borrowing rates for small companies
Term of Loan – Initial	20 Years	

Construction		
Depreciation Service Life	6 Years	

Observations:

Neither business case is viable under current conditions. There are several reasons for this.

- 1.) Current pricing of equipment is greater than can be justified in deployments of small scale that will be required in rural areas. In all cases pricing provided by the vendors shows a significant decrease over the five-year period.
- 2.) The price of leased transport is such that it is not economical to deploy a central head end for multiple service locations to realize economies of scale. Transport of video requires large bandwidth, which is uneconomical at current transport rates on the small scale necessary for rural applications.
- 3.) One would expect to see the business case improve from year to year as more subscribers are added, price of equipment decreases, and efficiencies are realized in operating (people) expenses. Based on current pricing at the scale considered in the evaluation, this does not happen on a significant scale, indicating that there may not be a viable case for these services at the scale deployed in rural areas.

Conclusions:

- 1.) Advanced Telecommunications Services is not a viable business case on a stand-alone basis at the small scales that would be deployed in rural areas.
- 2.) The high cost of leased broadband transport makes it uneconomical to realize economies of scale in equipment deployment by centralizing equipment.
- 3.) GVNW recommended to the client that, given the current business case, Advanced Telecommunications Service not be deployed at this time.

FULL HEAD END AT COMPANY

SAMPLE TELEPHONE COMPANY
BUSINESS PLAN - ADVANCED TELECOMMUNICATIONS SERVICES
INCOME STATEMENT

Calendar Year Estimate	1 Forecast 1998	2 Forecast 1999	3 Forecast 2000	4 Forecast 2001	5 Forecast 2002	Cumulative 5 Yr.
Income Statement and Cash Flow - Pro Forma						
Operating Revenues						
Operating Transfers In	\$0	\$0	\$0	\$0	\$0	\$0
Subscription Fees - CATV Basic	\$291,492	\$582,984	\$1,004,028	\$1,198,356	\$1,327,908	\$4,404,768
Subscription Fees - CATV Premium	\$48,546	\$97,092	\$161,820	\$188,790	\$215,760	\$712,008
Subscription Fees - VOD	\$0	\$0	\$0	\$0	\$0	\$0
Subscription Fees - Local Telephone Service	\$0	\$0	\$0	\$0	\$0	\$0
Subscription Fees - Internet Basic	\$91,176	\$136,764	\$227,940	\$364,704	\$501,468	\$1,322,052
Subscription Fees - Internet Premium	\$29,994	\$59,988	\$89,982	\$134,973	\$179,964	\$494,901
Subscription Fees - Lease STB	\$42,660	\$85,320	\$130,200	\$155,400	\$172,200	\$585,780
Transaction Fees - Internet Services	\$0	\$0	\$0	\$0	\$0	\$0
Transaction Fees - VOD	\$170,100	\$347,760	\$568,230	\$639,360	\$723,240	\$2,448,690
Long Distance Revenues	\$0	\$0	\$0	\$0	\$0	\$0
Advertising Revenue Local Market	\$10,800	\$32,400	\$74,400	\$111,000	\$147,600	\$376,200
Advertising Revenue Inet Links/Comsn	\$0	\$0	\$0	\$0	\$0	\$0
Advertising Revenue- Other	\$0	\$0	\$0	\$0	\$0	\$0
Install Fees	\$149,990	\$127,492	\$191,237	\$116,242	\$89,994	\$674,955
Increased Cost Recovery - Additional Sub Ckt Eqpt						
Interstate	\$0	\$0	\$0	\$0	\$0	\$0
State	\$0	\$0	\$0	\$0	\$0	\$0
Less: Bad Debt/Write-off's	(\$13,695)	(\$26,846)	(\$45,132)	(\$55,852)	(\$65,363)	(\$206,888)
Total Revenue	\$821,063	\$1,442,953	\$2,402,705	\$2,852,974	\$3,292,771	\$10,812,466
Revenue/Sub/Mo	\$68.42	\$65.00	\$64.07	\$60.96	\$60.98	\$63.89

FULL HEAD END AT COMPANY

SAMPLE TELEPHONE COMPANY
BUSINESS PLAN - ADVANCED TELECOMMUNICATIONS SERVICES
INCOME STATEMENT

Calendar Year Estimate	1 Forecast 1998	2 Forecast 1999	3 Forecast 2000	4 Forecast 2001	5 Forecast 2002	Cumulative 5 Yr.
Operating Expenses						
Sales/Marketing - Services	\$36,000	\$50,616	\$64,980	\$61,632	\$54,047	\$267,275
Sales/Marketing - Advertising	\$1,800	\$4,995	\$11,250	\$17,550	\$24,300	
Customer Services (Labor)	\$36,000	\$69,930	\$124,031	\$162,531	\$196,912	\$589,404
Engineering	\$18,000	\$24,975	\$31,641	\$29,616	\$25,629	\$129,860
Management	\$9,000	\$17,483	\$31,008	\$40,633	\$49,228	\$147,351
Accounting	\$9,000	\$14,985	\$22,781	\$25,588	\$26,572	\$98,926
Billing Costs	\$12,000	\$21,090	\$33,844	\$40,125	\$43,983	\$151,042
Legal Fees	\$4,920	\$7,282	\$9,840	\$9,824	\$9,069	\$40,934
Insurance	\$1,920	\$3,730	\$6,615	\$8,668	\$10,502	\$31,435
Consulting Fees	\$9,960	\$14,741	\$19,920	\$19,888	\$18,358	\$82,867
Internet Access Cost (Server Ports, IP License)	\$9,000	\$14,400	\$23,400	\$36,900	\$50,400	\$134,100
Local Telephone - Cable Pair Lease Cost	\$300,000	\$555,000	\$937,500	\$1,170,000	\$1,350,000	\$4,312,500
Software RTU/ Network Management	\$6,000	\$11,100	\$18,750	\$23,400	\$27,000	\$86,250
Long Distance Cost	\$0	\$0	\$0	\$0	\$0	\$0
Programming - Basic	\$64,800	\$129,600	\$223,200	\$266,400	\$295,200	\$979,200
Programming - Premium	\$27,000	\$54,000	\$90,000	\$105,000	\$120,000	\$396,000
Programming - VOD	\$97,200	\$198,720	\$349,680	\$426,240	\$482,160	\$1,554,000
(1) Facilities Lease - Transport	\$0	\$0	\$0	\$0	\$0	\$0
Install Labor, each (Wire House/CAT 5)	\$139,860	\$119,000	\$178,500	\$108,500	\$84,000	\$629,860
Interest	\$222,262	\$372,895	\$619,111	\$734,226	\$816,448	\$2,764,942
Depreciation - Video Server - VOD	\$33,195	\$51,795	\$75,825	\$86,031	\$92,264	\$339,110
Depreciation - Digital Video Encoder+HE - CATV	\$73,170	\$73,170	\$89,667	\$89,667	\$106,813	\$432,487
Depreciation - ATM Video Equip	\$163,956	\$315,170	\$628,611	\$809,427	\$952,830	\$2,869,994
Depreciation - ADSL	\$162,333	\$286,518	\$454,168	\$545,882	\$609,786	\$2,058,689
Depreciation - Set Top Box - VOD & CATV	\$102,300	\$184,140	\$278,711	\$313,629	\$332,252	\$1,211,032
Depreciation - Other						
Foregone Cost Recovery - Allocation of Loop to Video						
Interstate	\$0	\$0	\$0	\$0	\$0	\$0
State	\$0	\$0	\$0	\$0	\$0	\$0
Total Expense	\$1,539,676	\$2,595,334	\$4,323,032	\$5,131,356	\$5,777,754	\$19,367,153
Expense/Sub/Mo	\$128.31	\$116.91	\$115.28	\$109.64	\$107.00	\$115.43
Net Income (Loss)/Year	(\$718,614)	(\$1,152,381)	(\$1,920,327)	(\$2,278,383)	(\$2,484,982)	(\$8,554,687)
Net Income/Sub/mo	(\$59.88)	(\$51.91)	(\$51.21)	(\$48.68)	(\$46.02)	(\$51.54)

Notes:

1. Required for Transport Based Business Plans Only, Not Required for Full Head End/Internet Provider Business Plan.

No Video Service - Internet Only
FULL HEAD END AT COMPANY

**SAMPLE TELEPHONE COMPANY
BUSINESS PLAN - ADVANCED TELECOMMUNICATIONS SERVICES
INCOME STATEMENT**

	1	2	3	4	5	
	Forecast	Forecast	Forecast	Forecast	Forecast	Cumulative
Calendar Year Estimate	1998	1999	2000	2001	2002	5 Yr.
Income Statement and Cash Flow - Pro Forma						
Operating Revenues						
Operating Transfers In	\$0	\$0	\$0	\$0	\$0	\$0
Subscription Fees - CATV Basic	\$0	\$0	\$0	\$0	\$0	\$0
Subscription Fees - CATV Premium	\$0	\$0	\$0	\$0	\$0	\$0
Subscription Fees - VOD	\$0	\$0	\$0	\$0	\$0	\$0
Subscription Fees - Local Telephone Service	\$0	\$0	\$0	\$0	\$0	\$0
Subscription Fees - Internet Basic	\$91,176	\$136,764	\$227,940	\$364,704	\$501,468	\$1,322,052
Subscription Fees - Internet Premium	\$29,994	\$59,988	\$89,982	\$134,973	\$179,964	\$494,901
Subscription Fees - Lease STB	\$0	\$0	\$0	\$0	\$0	\$0
Transaction Fees - Internet Services	\$0	\$0	\$0	\$0	\$0	\$0
Transaction Fees - VOD	\$0	\$0	\$0	\$0	\$0	\$0
Long Distance Revenues	\$0	\$0	\$0	\$0	\$0	\$0
Advertising Revenue Local Market	\$0	\$0	\$0	\$0	\$0	\$0
Advertising Revenue Inet Links/Comsn	\$0	\$0	\$0	\$0	\$0	\$0
Advertising Revenue- Other	\$0	\$0	\$0	\$0	\$0	\$0
Install Fees	\$37,498	\$22,499	\$37,498	\$56,246	\$56,246	\$209,986
Increased Cost Recovery - Additional Sub Ckt Eqpt						
Interstate	\$0	\$0	\$0	\$0	\$0	\$0
State	\$0	\$0	\$0	\$0	\$0	\$0
Less: Bad Debt/Write-off's	(\$2,423)	(\$3,935)	(\$6,358)	(\$9,994)	(\$13,629)	(\$36,339)
Total Revenue	\$156,244	\$215,315	\$349,061	\$545,930	\$724,050	\$1,990,600
Revenue/Sub/Mo	\$52.08	\$44.86	\$44.75	\$44.38	\$43.10	\$45.83

SAMPLE TELEPHONE COMPANY
BUSINESS PLAN - ADVANCED TELECOMMUNICATIONS SERVICES
INCOME STATEMENT

Calendar Year Estimate	1 Forecast 1998	2 Forecast 1999	3 Forecast 2000	4 Forecast 2001	5 Forecast 2002	Cumulative 5 Yr.
Operating Expenses						
Sales/Marketing - Services	\$9,000	\$10,944	\$13,516	\$16,198	\$16,815	\$66,473
Sales/Marketing - Advertising	\$450	\$1,080	\$2,340	\$4,613	\$7,560	\$16,043
Customer Services (Labor)	\$9,000	\$15,120	\$25,799	\$42,716	\$61,262	\$153,896
Engineering	\$4,500	\$5,400	\$6,581	\$7,784	\$7,973	\$32,238
Management	\$2,250	\$3,780	\$6,450	\$10,679	\$15,315	\$38,474
Accounting	\$2,250	\$3,240	\$4,739	\$6,725	\$8,267	\$25,220
Billing Costs	\$3,000	\$4,560	\$7,040	\$10,546	\$13,684	\$38,829
Legal Fees	\$1,230	\$1,574	\$2,047	\$2,582	\$2,821	\$10,254
Insurance	\$480	\$806	\$1,376	\$2,278	\$3,267	\$8,208
Consulting Fees	\$2,490	\$3,187	\$4,143	\$5,227	\$5,711	\$20,759
Internet Access Cost (Server Ports, IP License)	\$9,000	\$14,400	\$23,400	\$36,900	\$50,400	\$134,100
Local Telephone - Cable Pair Lease Cost	\$75,000	\$120,000	\$195,000	\$307,500	\$420,000	\$1,117,500
Software RTU/ Network Management	\$1,500	\$2,400	\$3,900	\$6,150	\$8,400	\$22,350
Long Distance Cost	\$0	\$0	\$0	\$0	\$0	\$0
Programming - Basic	\$0	\$0	\$0	\$0	\$0	\$0
Programming - Premium	\$0	\$0	\$0	\$0	\$0	\$0
Programming - VOD	\$0	\$0	\$0	\$0	\$0	\$0
(1) Facilities Lease - Transport	\$0	\$0	\$0	\$0	\$0	\$0
Install Labor, each (Wire House/CAT 5)	\$35,000	\$21,000	\$35,000	\$52,500	\$52,500	\$196,000
Interest	\$0	\$0	\$0	\$0	\$0	\$0
Depreciation - Video Server - VOD	\$0	\$0	\$0	\$0	\$0	\$0
Depreciation - Digital Video Encoder+HE - CATV	\$0	\$0	\$0	\$0	\$0	\$0
Depreciation - ATM Video Equip	\$32,791	\$63,034	\$125,722	\$161,885	\$190,566	\$573,999
Depreciation - ADSL	\$40,583	\$62,498	\$95,371	\$139,749	\$179,689	\$517,890
Depreciation - Set Top Box - VOD & CATV	\$0	\$0	\$0	\$0	\$0	\$0
Depreciation - Other	\$0	\$0	\$0	\$0	\$0	\$0
Foregone Cost Recovery - Allocation of Loop to Video						
Interstate	\$0	\$0	\$0	\$0	\$0	\$0
State	\$0	\$0	\$0	\$0	\$0	\$0
Total Expense	\$228,525	\$333,024	\$552,422	\$814,032	\$1,044,230	\$2,972,233
Expense/Sub/Mo	\$76.17	\$69.38	\$70.82	\$66.18	\$62.16	\$68.94
Net Income (Loss)/Year	(\$72,280)	(\$117,709)	(\$203,361)	(\$268,102)	(\$320,181)	(\$981,633)
Net Income/Sub/mo	(\$24.09)	(\$24.52)	(\$26.07)	(\$21.80)	(\$19.06)	(\$23.11)

Notes:

1. Required for Transport Based Business Plans Only, Not Required for Full Head End/Internet Provider Business Plan.